QUARTERLY ATTRIBUTION

International Equity (CAD)

THIRD QUARTER 2012 PERFORMANCE REVIEW

The International Equity strategy underperformed the MSCI EAFE Index in the third quarter of 2012.

Detractors

- Stock selection in retailing, financial services, and autos & housing
- The portfolio's currency exposure had a negative impact on relative performance. We do not actively manage currency in this strategy.
- Individual stocks: Tim Participacoes and Canon

Contributors

- Stock selection in health care, consumer staples, and technology
- Individual stocks: ICICI Bank, Akzo Nobel, and China Unicom

SIGNIFICANT IMPACTS ON PERFORMANCE — DETRACTORS

Retailing

- The portfolio’s overweight position in Hong Kong-based export company **Li & Fung**, a leading and major supplier to retail giants Wal-Mart and Target, detracted from relative performance. The company's shares fell as waning job growth in the US prompted consumers to curb spending, while Europe’s deepening debt crisis also weighed on demand. Consumer weakness had a considerable negative impact on Li & Fung's first half 2012 operating profit.

Financial Services

- The portfolio's holdings of wealth management firm **Julius Baer** (Switzerland) detracted from relative performance. Shares of the company declined after the firm announced an agreement to acquire the overseas wealth management unit of Bank of America Merrill Lynch for US$882 million. Investors appeared to have been concerned with the rich purchase price, the transaction's financing plan which is expected to dilute existing shareholders, and the resulting cancellation of Julius Baer's current share repurchase program.

Autos & Housing

- An overweight position in automobiles and motors manufacturer **Honda Motor** (Japan) held back relative performance. The firm's shares underperformed during the quarter as uncertainty increased regarding auto production levels in the second half of 2012 and beyond due to a modest slowdown in demand prior to the withdrawal of eco-car subsidies and the continuing strength of the yen.

- Holdings of auto parts and equipment manufacturer **Denso** (Japan) held back relative returns as the stock underperformed the benchmark during the reporting period. Shares declined on continued concern over the weakening economic environment in Europe as the company exports many of its components to European automakers.

Additional Factors

- Shares of mobile telecommunications services company **Tim Participacoes** (Brazil) fell after Brazil's telecommunication regulator Anatel temporarily prohibited several of the largest wireless telecommunications companies from selling new lines due to excessive complaints about service quality.
- Holdings of leading manufacturer of digital cameras and office equipment **Canon** (Japan) held back relative performance. The stock came under pressure due to an inventory-led decline in the company's laser beam printer business, currency headwinds, and weaker global growth.

SIGNIFICANT IMPACTS ON PERFORMANCE — CONTRIBUTORS

Health Care

- An overweight position in German healthcare products maker **Bayer** contributed to relative performance. Investors appeared to have responded favorably after management increased its 2012 revenue and earnings forecasts. Specifically, management cited higher sales forecasts in its Crop Science and HealthCare divisions, as well as more favorable exchange rates, as the primary reasons for its increased guidance.
- Shares of German pharmaceutical and chemical company **Merck KGaA** rose as the company reported strong quarterly earnings. Revenue from Rebif and cancer drug Erbitux, its two best-selling prescription drugs, rose more than expected, and the euro's weakness boosted the value of overseas sales.

Consumer Staples

- Holdings of Dutch brewer **Heineken** contributed to relative performance. During the quarter, the firm reached an agreement to purchase Fraser & Neave's stake in their joint venture, Asia Pacific Breweries, effectively consolidating ownership under Heineken.

Technology

Stock selection in the technology sector supported relative performance. There were no individual securities within this sector that were among the portfolio's top relative contributors for the period.

Additional Factors

- The portfolio's holdings of banking firm **ICICI Bank** (India) contributed to relative results. Shares appeared to have moved higher near the end of the quarter on expectations that the Central Bank of India would cut interest rates, despite concerns over inflation. India's GDP growth is trending below an annualized rate of 6%, which many economists consider well below the country's potential.
- An overweight position in paint and specialty chemicals manufacturer **Akzo Nobel** (Netherlands) contributed to relative performance. Shares rose as the company reported strong earnings that exceeded analysts' expectations. The company's new CEO cited improved existing operations, increased return on capital, and cash flow generation as the primary drivers of outperformance.

- Holdings of **China Unicom**, China's second-largest wireless company, contributed to relative performance. The stock rose as the company reported earnings above analysts' expectations. Cheaper smartphones from Chinese suppliers helped the company trim subsidy costs and reduce reliance on Apple's iPhone to expand their market share.

POSITIONING

The International Equity strategy is focused on high-quality companies with sustainable above-average growth and returns, whose prospects are not reflected in their valuation. The largest overweight position in the strategy continues to be in specialty chemical companies as these companies generally display more stable returns through the cycle. The strategy also maintained overweight positions in a number of consumer staple companies, which we believe have strong brands and diverse geographical footprints that should enable them to grow at above-average rates, as well as strong balance sheets, good cash flow generation and attractive valuations. Finally, the strategy is overweight the technology sector as we own several companies that we believe should benefit from an increased penetration of smartphones, and the adoption of tablets, on a global basis.

Conversely, the strategy continues to be underweight companies that are sensitive to energy and commodity prices. This includes most integrated energy companies, who are facing declining reserves and increasing costs, and metals & mining companies. We continue to remain underweight in electric power and telecommunication companies because of limited opportunities for them to provide above-market levels of growth, particularly in developed markets. We believe returns and growth rates for telecommunication companies are low because competitive pressure and technological change generally keep capital intensity relatively high, and the regulatory environment for electric utilities remains a head wind as well due to the fiscal stress of governments globally. Within health care, we remain underweight pharmaceutical companies. While valuations appear to be compelling, the sustainability of many companies' growth expectations is difficult to assess given the big patent expirations expected through 2015.

While the financial sector is still one of the strategy's largest sectors in absolute terms, a continued underweight in financials is driven by our belief that most developed market commercial banks and insurance companies cannot grow faster than global GDP through a full economic cycle, as well as our concerns around the increased risks for these companies given the political issues facing many developed market countries' financial systems, and the near-term uncertainty regarding what the possible outcomes might be.

During the quarter, we continued to add to high-quality franchises that possessed strong balance sheets, generated good free cash flow and had the opportunity to capture market share going forward. We initiated a new position in a financial services company based in Brazil as we believe the company should benefit from falling provisioning levels and accelerating loan growth. We also added to an existing UK bank with significant exposure to Asia. Finally, we continued to add to our existing position in a German pharmaceutical company given it recently received FDA approval for a key drug that we believe should enable it to improve their margins and profitability over the long-term. Conversely, we eliminated our exposure to two luxury retailers that have performed well, on a relative basis. We also reduced our positions in a South Korean electronics company and a Brazilian telecommunications company in favor of other investment opportunities